

PUBLIC DISCLOSURE

May 29, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

SALEM ITALIAN AMERICAN CREDIT UNION

CERT # 67893

**24 ENDICOTT STREET
SALEM, MASSACHUSETTS 01970**

**Division of Banks
1000 Washington Street, 10th Floor
Boston, MA 02118**

NOTE:	This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this financial institution.
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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires the Massachusetts Division of Banks (Division) to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting its needs of its entire assessment area, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its assessment area.

This document is an evaluation of the CRA performance of **Salem Italian-American Credit Union (the "Credit Union")**, prepared by the Division, the institution's supervisory agency as of **May 29, 2013**. The Division rates the CRA performance of an institution consistent with the provisions set forth in Massachusetts Regulation 209 CMR 46.00.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

An institution in this group has a satisfactory record of meeting the credit needs of its membership, including low- and moderate-income members, in a manner consistent with its resources and capabilities.

This evaluation is based on the Small Institution CRA evaluation procedures specified for institutions with assets under \$296 million, adjusted annually.

According to CRA regulations, an institution shall delineate one or more assessment areas by which the institution will serve to meet the credit needs and by which the Division will evaluate the institution's CRA performance. Credit unions whose membership by-law provisions are not based upon residence are permitted to designate its membership as its assessment area.

A summary of the Credit Union's performance is provided below:

- The Credit Union's average net loan to share (LTS) ratio for the past 8 quarters was 88.6 percent and is considered reasonable. The net LTS ratio is primarily influenced by the size of its membership, its resources, and its loan product line.
- The Credit Union's distribution of borrowers reflects reasonable penetration to low and moderate-income borrowers given the characteristics of its membership.
- No CRA-related complaints received during the evaluation period.

SCOPE OF EXAMINATION

This evaluation considered the Credit Union's lending from January 1, 2011 through December 31, 2012. The Credit Union primary lending consists of consumer loans. The four categories of consumer loans offered by the Credit Union are unsecured personal loans, new vehicle loans, used vehicle loans, and home improvement loans. During 2011 and 2012, the Credit Union originated 87 totaling \$619,278 and 88 loans totaling \$665,936, respectively. A sample of 20 originated loans was reviewed for this time period.

PERFORMANCE CONTEXT

Description of Institution

Salem Italian-American Credit Union is a financial institution chartered by the Commonwealth of Massachusetts. As of March 31, 2013, the institution had total assets of \$1,227,831. The Credit Union has a single office located at 24 Endicott Street in Salem, Massachusetts, a moderate-income census tract.

The Credit Union does not originate residential mortgage loans. The Credit Union offers personal, share-secured, and new and used automobile loans. The Credit Union originates loans of all dollar amounts with a maximum of \$12,500 for personal loans, and the rates, terms, and conditions are competitive with other credit unions of similar size and type.

As of March 31, 2013, the Credit Union's net loan portfolio totaled \$823,618, or 67.1 percent of the Credit Union's total assets. The largest portion of the loan portfolio is comprised of used vehicle loans at 63.7 percent; unsecured lines of credit at 17.3 percent; all other loans at 17.3 percent; and new vehicle loans with 1.7 percent.

The Credit Union was last examined for compliance with the CRA by the Division on October 16, 2007. That examination resulted in a CRA rating of "Satisfactory."

There are no apparent financial or legal impediments that would limit the Credit Union's ability to help meet the credit needs of its membership.

Description of Assessment Area

In accordance with the requirements of 209 CMR 46.41, the Credit Union defines its membership as its assessment area. According to the Credit Union's bylaws membership "...membership in this Credit Union is limited to those who are of Italian origin, residing or working in the City of Salem, members of their immediate family, and such other persons who are members of Italian lodges and societies located in the City of Salem.

As of March 31, 2013, the Credit Union's membership totaled approximately 336 individuals.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

Small Institution CRA evaluation procedures were utilized to assess the CRA performance. These procedures utilize the Lending Test. Since the Credit Union defined its assessment area as its membership, this evaluation considered the institution's performance pursuant to the following criteria: loan-to-share (LTS) ratio, lending to borrowers of different incomes, and record of taking action in response to CRA complaints and a fair lending review.

LENDING TEST

Overall, the Credit Union's performance under the Lending Test is considered "Satisfactory." This rating indicates that Haverhill Fire Department Credit Union's lending performance demonstrates a satisfactory responsiveness to the credit needs of its membership.

LOAN-TO-SHARE (LTS) ANALYSIS

This performance criterion determines what percentage of the Credit Union's share base is reinvested in the form of loans and evaluates its appropriateness.

The Credit Union's net LTS ratio as of March 31, 2013 was 83.1 percent. The Credit Union's average quarterly net LTS ratio was 88.6 percent and was calculated by averaging the previous eight quarterly net LTS ratios between June 30, 2011 and March 31, 2013.

During the evaluation period, both loans and shares varied. From the beginning of the period to the end, loans increased by 6.7 percent and shares increased by 13.2 percent. The manager of the Credit Union attributed the low net LTS ratio to members seeking to obtain loans elsewhere to get more competitive interest rates. The manager also indicated that because the Credit Union offers favorable interest rates on shares, members utilize the Credit Union primarily as an institution for savings. In addition, the Credit Union only offers consumer loans, which by nature are lower in dollar volume.

Based on the foregoing information, the Credit Union's asset size, resources, and the credit needs of its members, the Credit Union's net loan-to-share ratio is considered reasonable.

DISTRIBUTION OF CREDIT AMONG BORROWERS OF DIFFERENT INCOME LEVELS

The distribution of consumer loans by borrower income level was reviewed to determine the extent to which the Credit Union is addressing the credit needs of its members. The Credit Union achieved an adequate penetration among borrowers of different income levels based on a comparison to the median family incomes for the Lawrence Metropolitan Statistical Area (MSA), which was estimated to be \$86,200 in 2011 and \$87,300 in 2012.

As shown in the table below reflecting distribution of consumer loans by borrower income, the Credit Union's performance reflects an adequate penetration among members of different income levels (including low- and moderate-income).

Table 3 - Distribution of Loans by Borrower Income					
Median Family Income Level	2011		2012		Distribution of Families by Income Level
	#	%	#	%	
Low	3	30.0	3	30.0	49.7
Moderate	4	40.0	4	40.0	22.4
Middle	2	20.0	2	20.0	15.9
Upper	1	10.0	1	10.0	12.0
Total	10	100.0	10	100.0	100.0

Source: Credit Union Loan Data for 2011 and 2012

A sample of 20 loans from 2011 and 2012 were reviewed for income distribution. In both 2011 and 2012, 30.0 percent of loans were made to low-income borrowers and 40.0 percent were made to moderate-income borrowers.

Because the Credit Union only makes loans to its members, the income relied upon in making the credit decision was that of one borrower. Comparing the member's income with the median family income potentially inflates the levels of lending to low- and moderate-income borrowers because the median family income typically includes the income of two individuals.

Based on the above information, the Credit Union is considered to meet the standards for satisfactory performance.

RESPONSE TO CRA COMPLAINTS AND FAIR LENDING

The Credit Union did not receive any CRA-related complaints during the evaluation period. As a result, this performance criterion is not applicable.

The Division of Banks provides comments regarding the institution's fair lending policies and procedures pursuant to Regulatory Bulletin 1.3-106.

Based upon a review of the Credit Union's performance relative to fair lending policies and practices, no violations of the anti-discrimination laws and regulations were identified. The Credit Union approved all loan applications during the evaluation period. No practices that would result in disparate treatment were noted.

The Credit Union incorporates references to Fair Lending as part of its loan policies. Fair Lending is incorporated into the Credit Union's loan policy as part of its basic lending philosophy. The prohibited bases of Regulation B are expressly mentioned.

The Credit Union has a second review for denied loan applications. Any loan declined by the Credit Committee is sent to the Board of Directors for a second review.

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations, require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each assessment area;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks at 24 Endicott Street, Salem, Massachusetts 01970."

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agencies, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.